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POLICY BRIEF

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Which products should Uganda leverage for export diversification?

Executive Summary

The Ministry of Trade, Industry and Cooperatives (MTIC) will be developing a National Export Development Strategy (NEDS) for the next five years. This brief identifies the sectors and products that could be considered as game-changers for Uganda's export development, mainly through export diversification efforts. Overall, the results suggest that Uganda has higher chances for export diversification in light manufacturing and agricultural sectors in comparison to other sectors. The brief makes the following recommendations. First, strengthen the public and private sector efforts to boost the quality and quantity of products through sustainable value addition and innovation. Second, introduce prospective exporters to new markets and provide information necessary to boost and sustain export diversification. Third, build current and prospective exporters' production, marketing and exporting capacities to tap into the regional markets. Fourth, Uganda should look at the African continent for diversification into light manufactured and agricultural products.

Introduction

Export diversification is a key policy objective for boosting economic growth and development in all countries, especially developing countries. In Uganda, supporting exports growth through diversification is crucial given the current performance of the domestic and global economy. For instance, the ongoing coronavirus disease-2019 (COVID-19) pandemic and the associated containment measures have resulted in the disruption of global trade, which has increased uncertainty about the future of global and regional trade.

In addition, Uganda has consistently experienced a trade deficit over the past decades, which is associated with increased vulnerability to external shocks such as exchange rate volatilities, low job creation and depletion of national reserves, among others. For instance, in 2019, Uganda's trade deficit was US$ 4.02 billion. Furthermore, Uganda mainly exports agricultural commodities and mineral ores associated with fluctuations in prices, which increases the risk of shocks in terms of trade and sustained export growth. Notably, guaranteeing sustained export growth could increase the prospects for economic growth and development, further boosting export diversification.

Moreover, the government (MTIC) is set to develop the NEDS to replace the current one (2015/16 – 2019/20)[1]. The new NEDS is in line with the third National Development Plan (NDP III)[2] , and it will support the structural transformation and development of Uganda's economy. More specifically, the strategy will identify the country's export potential for diversification in line with NDP III's agro-industrialisation and manufacturing programmes. These programmes aim to increase the total export value of processed agricultural commodities and increase the share of manufactured exports to total exports from 12.3 percent to 19.8 percent.

Therefore, it is crucial to support this process by identifying the sectors and products that could be considered game-changers for Uganda's export development through export diversification. In addition, diversifying Uganda's exports could also significantly reduce Uganda's trade deficit, the uncertainty about contraction in trade due to the COVID-19 pandemic and the risks associated with terms of trade shocks. Notably, export growth is critical for sustainable economic growth and development in the current pandemic era. However, because different sectors contribute to economic growth, sustaining this growth could require increasing export volumes and quality across and within the priority sectors.

Approach and data

Against the above background, this brief, based on the study titled **Potential Products for Uganda's Export Expansion and Diversification**[3], identifies the potential products for export diversification. To identify the potential products for export diversification, the brief used Harvard's Atlas of Economic Complexity[4] and the International Trade Centre's Export Potential Assessment approaches particularly the product diversification indicator[5].

Key Findings

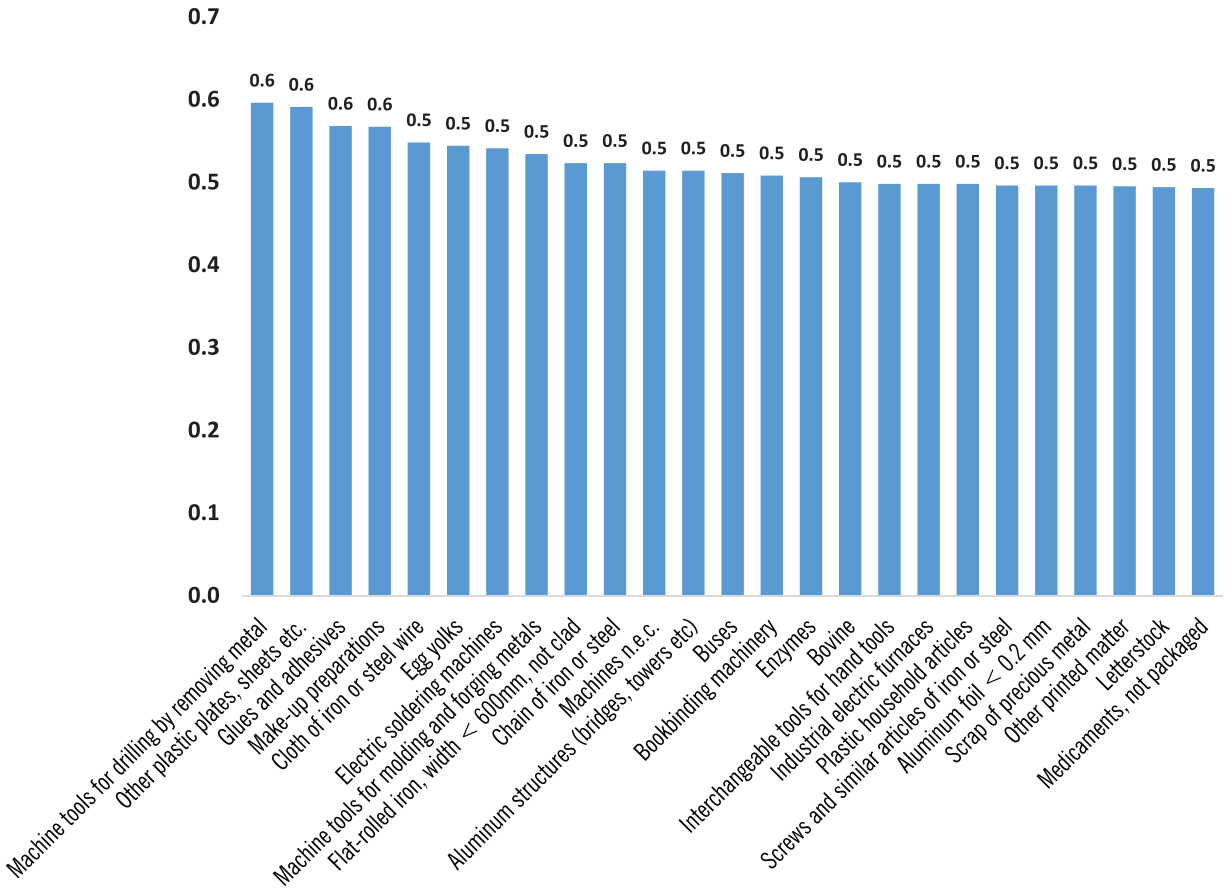
Using the Atlas of Economic Complexity, we developed a composite index based on the distance, product complexity index, opportunity gain and the revealed comparative advantage indicators. More specifically, we identified the top 25 potential products for export diversification for Uganda, as shown in Figure 1. These include machine tools for drilling, other plastic plates, glues and adhesives, make-up preparations, iron and steel wire cloths, machine tools, and flat-rolled iron.

These findings suggest that Uganda is more likely to succeed in export diversification in light manufacturing and agricultural products in comparison to other sectors. Therefore, the government should strongly consider boosting its light manufacturing and agro-processing support because they provide a plausible route to enhance export diversification. The findings also suggest that Uganda can diversify within and across other sectors. For instance, Uganda can diversify within the agricultural sector and towards the agricultural sector, and within the light manufacturing sector towards the manufacturing sector, without necessarily focusing on diversifying from agriculture to light manufacturing.

Significantly, the daunting task ahead is not increasing new export products but ensuring sustainable growth of the identified potential export diversification products. Therefore, the government has a key role in supporting prospective exporters to identify potential markets and adopt international standards.

Using the Product Diversification Indicator, we identify the top 25 commodities that could be considered for export diversification in the world market. Table 1 also presents the total market value in billion US$ for the top products and the top three potential markets with their import tariffs. The results suggest that the top destinations

Figure 1 Top 25 products for export diversification according to composite index



Source: Atlas of Economic Complexity (2021)

for Uganda's export potential products are Africa, Europe and Asia. The taxes are essentially zero, with a few between 1 and 10 and an extremely small number beyond 11. Notably, this indicator corroborates the earlier findings using the composite index, i.e. the top products for export diversification are lightly manufactured and agro-processed products.

For instance, Uganda's best options for export diversification in Africa are wheat or meslin flour, crude palm oil, and mineral or chemical fertilisers. Conversely, to Europe, the products include cashew nuts, molluscs and other aquatic invertebrates, crude palm oil, pineapple juice, fish flours, aluminium, melons, and cane molasses edible parts of plants, among others. Lastly, in Asia, the products include cashew nuts (in shell and shelled), flours of fish or crustaceans, crude palm oil, cloves, cardamons and copper cathodes, among others.

Table 1 Top 25 products for export diversification according to product diversification indicator

Rank	Description	Total world trade Bn	Country 1	Tariff	Country 2	Tariff	Country 3	Tariff
1	Cashew nuts, in shell	3	Viet Nam	5	India	0	China	0
2	Cashew nuts, shelled	4.6	UAE	5	USA	0	Netherlands	0
3	Crude palm oil	8.7	India	7.5	Kenya	0	Netherlands	0
4	Portland cement	6.2	Rwanda	0	DRC	10	S Sudan	0
5	Vegetable fats, oil & fractions, hydrogen	3.2	Rwanda	0	DRC	10	Burundi	0
6	Molluscs & other aquatic invertebrates	8.7	Hong Kong	0	Spain	0	Italy	0
7	Broken rice	1.8	DRC	10	S Sudan	0	Rwanda	0
8	Flours of fish or crustaceans	4.6	China	0	Viet Nam	0	Germany	0
9	Milk powder	9.1	Sudan	0	Hong Kong	0	UAE	5
10	Wheat or meslin flour	4.8	DRC	10	Sudan	0	Hong Kong	0
11	Cloves	0.42	India	0	Singapore	0	UAE	5
12	Copper cathodes	55.1	UAE	5	China	0	Italy	0
13	Cardamons	0.669	UAE	0	India	70	Singapore	0
14	Bars & rods of iron or non-alloy steel	11.4	Rwanda	0	UAE	5	Singapore	0
15	Exercise books of paper(-board)	0.542	Rwanda	0	Burundi	0	DRC	5
16	Chickpeas, dried & shelled	1.8	India	0	Pakistan	3	UAE	5
17	Crude soya-bean oil	7.4	India	6.3	Morocco	2.5	Bangladesh	0
18	Footwear, rubber/plastic soles & uppers	2	Rwanda	0	Sudan	0	DRC	20
19	Mineral or chemical fertilisers	1.8	Rwanda	0	Burundi	0	India	0
20	Edible parts of plants, prepared or preserved	4.2	Netherlands	0	China	0	Hong Kong	0
21	Vegetable products nes	0.837	China	0	Poland	0	Somalia	2
22	Unrefined copper	9.8	China	0	India	0	Belgium	0
23	Sacks & bags of polyethene	1.8	Kenya	0	Sudan	0	Zambia	0
24	Flat-rolled products of iron or non-alloy	2.8	Rwanda	0	DRC	20	S.Sudan	0
25	Pineapple juice, unfermented	0.415	Netherlands	0	Spain	0	Italy	0

Source: Authors' computations using data from the International Trade Centre's Export Potential Map (2021)

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Conclusion and policy recommendations

This brief sheds light on which products Uganda should ***leverage for export diversification*** as the government develops its next National Export Development Strategy . There is some evidence that Uganda has a higher comparative advantage for export diversification in light manufacturing and agricultural products on average. The uphill task for Uganda is not identifying and increasing the new export products, but it is the ability to ensure sustainable growth of the identified potential export diversification products.

Therefore, the following policy recommendations emerge from the study:

1. **Strengthen the public and private sector efforts to improve the quality and quantity of products through sustainable value addition and innovations.** This also necessitates strengthening the current innovations system by providing export support services, business incubators, and intellectual property law. These efforts should be complemented by adopting the international standards for the selected commodities and strengthening the links between research institutions and firms.

2. **Introducing prospective exporters to new markets and providing the necessary information could boost and sustain export diversification efforts.** In addition, the government should continue efforts to promote domestic and foreign direct investment to promote inclusion in both regional and global value chains.

3. **Both private and public sectors should address supply-side constraints that impede and limit the production capacities of Uganda's enterprises to tap into the available export opportunities.** These include capacities to produce, market and export products. Addressing the supply-side gaps could be complemented by developing trade-related infrastructure including energy, transport, and e-commerce.

4. **Uganda should leverage the opportunities provided by the African Continental Free Trade Area (AfCFTA) by diversifying into manufactured products and agricultural products.** This is because of the reduction in tariffs and commitment by African countries to reduce the trade barriers within the continent further and promote unbridled international competition.

Endnotes

1 Ministry of Trade Industry and Cooperatives. 2015. National Export Development Strategy 2015/16 – 2019/20, Republic of Uganda.
2 National Planning Authority. 2020. National Development Plan III, 2020/21 – 2024/25, NPA, Republic of Uganda.
3 Shinyekwa, I.M.B, Bulime, E.W.N, Nattabi, A.K. & Luwedde, J. (2021). Potential Products for Uganda's Export Expansion and diversification. Economic Policy Research Centre. Research Series No.155
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5 Decreux, Y., & Spies, J. (2016). Export Potential Assessments- a methodology to identify export opportunities for developing countries. Geneva: International Trade Center.

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